

CITY OF TITUSVILLE

FINANCIAL MANAGEMENT POLICY

I. Purpose of Fiscal Performance Goals

The operating budget policies and fiscal performance goals represent an effort to establish written policies for guiding the City's financial management practices. While some of the performance goals are specific and will limit certain types of financial activity, the goal statements are not intended to restrict City Council's ability and responsibility to respond to emergency or service delivery needs above and beyond the limitations established by the fiscal performance goals.

Additional policies will be developed to support the City's financial management policy. Policy guidelines will be established to support, not oppose, the Third Class City Code, Optional Charter law which governs the City of Titusville.

II. Revenue Performance Policies and Goals

- A. **Revenue Diversification:** The City of Titusville will maintain a diversified and stable revenue system as protection from short-run fluctuations.
- B. **Estimates of Revenue:** The City of Titusville will estimate annual revenues on an objective and reasonable basis. The City of Titusville will develop a method to project revenues on a multi-year basis.
- C. **One-Time Revenues:** The City of Titusville will use one-time or special purpose revenue for capital expenditures or for expenditures required by the revenue, and not to subsidize recurring personnel, operation and maintenance costs.
- D. **Review of Fees:** The City of Titusville will establish and annually re-evaluate all user charges and set fees at a level related to the cost of providing the service, or establish new fees where necessary. All annual evaluations will be submitted to the City Manager.
- E. **Review of Contracts/Services:** The City of Titusville will establish and annually re-evaluate contractual items and services such as bank depositories, insurance carriers, and the annual independent audit.
- F. **Tax Rates:** The City of Titusville will endeavor to keep the property tax rate stable by:
 - 1. Expanding and diversifying the City tax base with development as outlined by a comprehensive land use plan.
 - 2. Seeking and developing additional revenue sources.
 - 3. Seeking legislative support for local option taxes.
- G. **Enterprise Funds:** The enterprise funds of the City of Titusville will maintain revenue which will support the full direct and indirect costs of the fund, including costs of operation and maintenance; depreciation; reasonable rate of return on the net value of the enterprise; and debt service. Also, enterprise fund revenues will not be used to subsidize unrelated general fund activities.

III. **Operational Expenditures Performance Policies and Goals**

- A. **Budgetary Balance:** The City will adopt and maintain a balanced budget in which on-going expenditures will not be allowed to exceed reasonably estimated on-going resources and revenue.
- B. **Current Expenditures:** The City of Titusville will pay for all current operation and maintenance expenses from current revenue sources.
- C. **Capital Equipment Maintenance:** The operating budget will provide for the adequate maintenance of capital assets and equipment.
- D. **Full-Funding of Pension Systems:** The budget will provide for adequate (full) funding of all employee benefit programs and retirement systems.
- E. **Budgetary Control:** The City of Titusville will maintain a budgetary control system which will enable it to adhere to the adopted budget. This includes a centralized record keeping system to be adhered to by all programs and activities receiving annual appropriations. Proposed major budgeted expenditures such as new positions, equipment acquisitions, and capital improvements will have prior board approval.
- F. **Monthly Reports:** The City of Titusville will prepare and maintain a system of regular monthly financial reports comparing actual revenues and expenditures to budgeted amounts.
- G. **Risk Management:** The City of Titusville will develop and implement an effective risk management program to minimize losses and reduce costs. The City will ensure that adequate insurance programs are in place. This shall include unemployment and worker's compensation costs.
- H. **Privatization:** The City of Titusville will encourage delivery of services by other public and private organizations whenever and wherever greater efficiency and effectiveness can be expected, as well as develop and internally use technology and productivity advancements that will help reduce or avoid increasing personnel costs. The intent is to control personnel costs as a proportion of the total budget; to more productively and creatively use available resources; and to avoid duplication of effort and resources.

IV. **Fund Balance**

- A. A general fund balance will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- B. The general fund balance should not be used to support recurring operating expenditures.
- C. The upper goal for the fund balance is 15%, but not less than 10% of the average actual general fund revenues for the preceding five fiscal years.

- D. Funds in excess of the upper goal may be considered to supplement “pay as you go” capital outlay expenditures or prepay existing debt.

V. Capital Acquisition Policies

- A. The City will make all capital improvements in accordance with an adopted and funded capital improvement program. The adopted capital improvement program will be based on need.
- B. The City will develop an annual five-year plan for capital improvements including: design, development, implementation, and operating and maintenance costs.
- C. All capital improvement projects approved in the annual operating budget are approved at the budgeted amounts through the completion of the project. City Council approves both the individual project total budget and the projected cash outlays for all capital improvement projects for the current fiscal year.
- D. Staff will identify the estimated costs, potential funding sources, and project schedule for each capital project proposal before it is submitted to City Council for approval.
- E. The City will use intergovernmental assistance and other outside resources whenever possible to fund capital improvements providing that these improvements are consistent with the capital improvement plan (CIP) and City’s priorities, and the future operating and maintenance costs of these improvements have been included in the budget.
- F. Staff will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.
- G. Cost tracking for components of the capital improvement program will be updated quarterly to ensure project completion against budget and established time lines.
- H. **Vehicle Replacement Policy:** In order to provide safe, reliable transportation appropriate to the work to be performed, the following policies have been established:
 - 1. The newest vehicles will be used for those purposes requiring the highest annual mileage.
 - 2. Vehicles will be reviewed annually for replacement when they are 10 years old or have accumulated 100,000 miles.
 - 3. A vehicle may be replaced in advance of the above criteria if it can be reallocated to a low mileage use.
 - 4. The finance department will prepare a report for department heads to review in conjunction with the annual capital requests. During the review, the department head will consider such things as:
 - a. Repair costs and life expectancy versus the cost of a new replacement vehicle.
 - b. Alternative uses for vehicles.

VI. Debt Policies

- A. **Debt Policy Purpose:** The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of, and reporting on all debt obligations issues by the City of Titusville, and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.
- B. **Approved Uses of Debt:** Debt financing will be used for major, non-recurring items with a minimum of four years of useful life. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.
- C. **Issuance Restrictions:** Long-term borrowing will not be used to finance current operations of normal maintenance. The useful life of the asset or project shall exceed the payout schedule of any debt the City assumes.
- D. **Types of Debt:** Whenever appropriate, the City shall use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds so those benefiting from the improvements will bear all or part of the cost of the assets financed.
- E. **Refunding Bonds:** Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding, or the refunding is essential in order to modernize covenants essential to operations and management.

In general, advance refundings for economic savings will be undertaken when a net present value savings of at least 5% of the refunded debt can be achieved. Current refundings which produce a net present value savings of less than 5% will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

- F. **Debt Limits:** In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of general fund revenues, and in no case should they exceed 20%. The City will limit its total outstanding general obligation debt to 5% of the assessed valuation of taxable property.
- G. **Repayment Provisions:** Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay at least 20% of the principal amount of its general obligation debt within five years and at least 40% within 10 years.

The City will seek to structure debt with level principle and interest costs over the life of the debt. "Backloading" of costs will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive; when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present; when such structuring is

beneficial to the City's overall amortization schedule; or when such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

- H. **Insurance/Letters of Credit/Enhancements:** Credit enhancements such as letters of credit, bond insurance may be used, but only when net debt service on the bonds is reduced by more than costs of the enhancement.
- I. **Investment of Bond Proceeds:** Bond interest earnings will be limited to funding changes to the bond financed CIP or be applied to debt service payment on the bonds issued for construction of the plan.
- J. **Sales Process:** The City will generally conduct financings on a competitive basis. Negotiated sales will be considered in extraordinary circumstances when the complexity of the issue requires specialized expertise; when a change of underwriter may result in losses; when the negotiated sale would result substantial savings in time or money; or when market conditions or City credit are unusually volatile or uncertain.
- K. **Professional Services:** The City will seek the advice of a financial advisor when necessary. The financial advisor will advise on the structuring of obligations to be issued, inform the City of various options, advise the City as to how choices will impact the marketability of the City obligations, and will provide other services as defined by contract approved by the City Council. To ensure independence, the financial advisor will not bid on nor underwrite any City debt issues. The financial advisor will inform the City Manager of significant issues.
- L. **Bond Rating Goals:** The City will seek to establish, maintain and, if possible, improve our bond rating in order to minimize borrowing costs and preserve access to credit. The City will maintain good, on-going communication with bond rating agencies about it financial condition.
- M. **Short-Term Debt:** Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transactions costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.